



PUTTING YOUR *Paycheck* TO WORK

FEDERAL RESERVE BANK OF KANSAS CITY

FACT SHEET 1

UNDERSTANDING YOUR PAYCHECK

You may know that the amount you receive in your paycheck is less than your total earnings, but do you know why it is less and where that money goes? Taxes? Yes. At least some of it; however, it is important to understand everything that affects your pay. After all, it is your money; and the better you understand your paycheck the better you can manage it to meet your financial needs.

GROSS PAY VERSUS NET PAY:

What you make and what you take

Your **gross pay** is the total amount of regular pay, overtime pay and any other reimbursements you receive during a pay period. If you are an hourly employee, your gross pay will equal the number of hours you have worked times your hourly pay rate. For salaried workers, this amount is the annual salary divided by the number of pay periods in the year. Your **net pay** is the amount you receive after your employer takes out withholdings and deductions.

WITHHOLDINGS AND DEDUCTIONS:

Payments made for you by your employer

Withholdings and deductions are payments your employer makes for you. These **mandatory withholdings** include federal income taxes, Social Security and Medicare, and depending on where you live and work, state

and local taxes. Employers also are required to withhold money if ordered by a court for payment of child support, debts, outstanding taxes and similar judgments.

Your employer also may make **voluntary deductions** from your pay for medical insurance, retirement savings, such as a 401(k) plan, parking fees, uniform cleaning service or other similar expenses. Depending on the deduction, it may affect how much of your pay is taxed. For example: A contribution to an employer-sponsored retirement plan may be made from pre-tax wages. This reduces the amount of pay that is taxed and lowers your tax withholdings. Because of this, you may be surprised to find that deductions for retirement savings and other programs may have less of an impact on your net pay than you would think.



MANAGING YOUR PAYCHECK - UNDERSTANDING YOUR PAYCHECK

A better understanding of your paycheck is important so you can have a say on how much is taken out of your paycheck for mandatory withholdings and voluntary deductions. Your withholdings for taxes are determined by how much money you make in a pay period and the information you provide on your W-4 form, the Employee's Withholding Allowance Certificate. The W-4 is discussed in the fact sheet 'Managing Your Paycheck – Part 1: Withholdings.' Common deductions are explained in the fact sheet, 'Managing Your Paycheck – Part 2: Deductions.'

THE PAYSTUB:

Why it is important

The paystub, or paycheck record, is a form provided to you each time you're paid. The paystub is an important record listing the pay you earned and withholdings and deductions. Your paystub will also list all the withholdings and deductions taken from your pay. You may use your paystub when preparing your taxes, applying for a loan or seeking other types of services.

Your paystub may look different from the one shown here, but it will have similar information. Use your paystub to find the items described in this example. Ask your employer to show you where these items are located on your paystub. Your paystub may be attached to your paycheck or provided as a separate document if you receive your pay through direct deposit or a payroll card.

Payroll Paystub				
Joe's Café ¹ 123 Ventura Rd Hilo, OK 77330	PAY PERIOD ² Week of April 1-7, 2021			
EMPLOYEE: ³ Jason Johnson 1322 Eagle Creek Dr. Hilo, OK 77330	EMPLOYEE INFO: ⁴ Employee ID: 332145 Job Title: Clerk Pay Rate: \$15	TAX DATA: ⁵ Marital Status: Allowances: Addl. Pct: Addl. Amt.:	FEDERAL Married 3 0 0	STATE Married 3 0 0
HOURS AND GROSS PAY: ⁶ Description Regular Pay	Rate \$15	Hours 40	Current Period \$600	Year-to-Date \$7,800
DEDUCTIONS: Federal Withholding ⁷ Social Security ⁸ Medicare ⁸ State Withholding ⁹ 401 (k) ¹⁰ Totals *Excluded from federal taxable wages			Current Period 20.70 25.20 8.70 9.00 18.00 81.60	Year-to-Date 269.10 327.60 113.10 117.00 234.00 1,060.80
NET PAY: ¹¹			\$518.40	\$6,748.20
NET PAY DISTRIBUTION: ¹² Form Check # 12938390-990			Amount \$518.40	

The information on the paystub is used to complete your annual Wage and Tax Statement, or W-2. Your employer prepares a W-2, which reports to the IRS how much you have received in wages throughout the year and how much has been withheld by your employer. This helps ensure you pay the right amount of taxes.

- 1 Your employer's name and address will allow you to contact them, if needed, for any questions or disputes.
- 2 The pay period states the time covered by the paycheck. Pay periods are commonly weekly, bi-weekly or monthly.
- 3 Your name and address should be correct so that your employer can contact you. Some forms such as your W-2 are usually sent to you by mail.
- 4 Other employee information may include your identification number, title, department, length of service and pay rate. To help protect you from identity theft, your paystub should not include your Social Security number.
- 5 The tax data section shows the information you have provided to your employer on the W-4 form. This information is used by your employer to calculate how much to withhold for taxes.
- 6 Your gross pay is the total amount you have earned during the pay period. If you are an hourly employee, your gross pay will equal the number of hours you have worked times your hourly pay rate. For salaried workers, this amount is the annual salary divided by the number of pay periods in the year.
- 7 Federal withholding is the amount your employer is required to deduct and send to the IRS to pay your federal income taxes. This amount is determined by how much you make and the information you provide on your W-4.
- 8 Money is deducted from your pay to fund Social Security and Medicare, two federal programs that provide monthly benefits and health care coverage to retired workers and other eligible individuals. The amount you pay is based on a percentage of your pay. You may see these referred to on your paystub as FICA, or Federal Insurance Contribution Act.
- 9 Your employer may also be required to deduct money and send it to state and local governments to pay for taxes. These amounts may be determined by your pay and information you provide on your W-4 or similar form.
- 10 A 401(k) is a type of employer-sponsored retirement plan that is funded by contributions that you make. Employers may also match your contribution up to a set percentage of your pay or dollar amount. Your contribution is taken from your pre-tax earnings which reduces the federal income tax you pay.
- 11 Your net pay is the amount of money you will receive from your employer. This is your gross pay minus all of the withholdings and deductions listed on your paystub.
- 12 The net pay distribution shows how your pay was provided to you. In this example, a check for the net pay amount was used. Other ways of receiving your pay can be by direct deposit into a bank account or through a payroll card. Information on methods for receiving your pay is discussed in the fact sheet 'Getting Your Paycheck: Check, Direct Deposit or Payroll Card.'

“You may be surprised to find that deductions for retirement savings and other programs may have less of an impact on your net pay than you would think.”

ACTIONS TO GET MORE FROM YOUR PAYCHECK

- 1. Make sure your pay is correct on the paystub.**
Contact your employer (depending on your company, this could be the human resources department, payroll staff or your supervisor) if you have any questions about the recorded hours worked, gross pay, withholdings and deductions, net pay or other issues with your paycheck.
- 2. Keep your paystubs** throughout the year to make sure that the information reported on your W-2, the annual statement of your wages used for tax filing, is accurate.
- 3. Inform your employer if your address changes.**
Your employer may send you important tax forms by mail that could be delayed or lost if your address is incorrect. Your change of address also may affect your required state and local tax withholdings.

VISIT [HTTP://PAYCHECK.KCFED.ORG](http://PAYCHECK.KCFED.ORG)

for additional information and resources about understanding and managing your paycheck. This publication presents general information of interest to the public. It is not intended to provide specific advice or recommendations. *Fact sheets in the series “Putting Your Paycheck to Work” include:*

- *Understanding Your Paycheck*
- *Managing Your Paycheck – Withholdings*
- *Managing Your Paycheck – Deductions*
- *Getting Your Paycheck: Direct Deposit, Check or Payroll Card*
- *Expanding Your Paycheck: Benefits and Services to Consider*
- *Ten Actions to Get More from Your Paycheck*

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